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ORIGIN STR-08

INFO OCT-01 EUR-25 EA-11 NEA-10 IO-12 ADP-00 AGR-20 CEA-02

CIAE-00 COME-00 DODE-00 EB-11 FRB-02 H-02 INR-10

INT-08 L-03 LAB-06 NSAE-00 NSC-10 PA-03 RSC-01 AID-20

CIEP-02 SS-15 TAR-02 TRSE-00 USIA-12 PRS-01 OMB-01

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FM SECSTATE WASHDC

TO USMISSION GENEVA

USMISSION EC BRUSSELS

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY OTTAWA

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AMEMBASSY TEL AVIV
AMEMBASSY TOKYO
AMEMBASSY VIENNA
USMISSION OECD PARIS

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E. O. 11652: N/A

TAGS: ETRD, US, EEC, GATT, EFTA

SUBJ: GATT: CTIP -- TARIFF HARMONIZATION, U. S. COUNTER
PROPOSAL

REF: (A) GENEVA 1925 (NOTAL) (B) GENEVA 292 (NOTAL)
(C) GENEVA 427 (NOTAL)

1. AT GATT COMMITTEE ON TRADE IN INDUSTRIAL PRODUCTS
(CTIP), JAN. 18-19 (REF B), AND AT TARIFF STUDY WORKING
PARTY, JAN. 24-26 (REF C), U. S., IN COMMENTING ON
HARMONIZATION TECHNIQUES FOR NEGOTIATIONS ON TARIFFS, MADE
FOLLOWING POINTS:

(A) ANY HARMONIZATION TECHNIQUE THAT REQUIRES LARGER
TARIFF CUTS ON HIGH DUTIES THAN ON LOW DUTIES WOULD RESULT
IN SOME COUNTRIES MAKING LARGER CONCESSIONS THAN OTHERS IN
TARIFF ASPECT OF FORTHCOMING MULTILATERAL TRADE NEGOTIA-
TIONS. CONSEQUENTLY, THOSE WHO FAVOR SUCH TECHNIQUES
SHOULD BE PREPARED TO PROPOSE HOW OVERALL RECIPROCITY IN
NEGOTIATIONS IS TO BE ACHIEVED THROUGH UNBALANCED CON-
CESSIONS IN OTHER ASPECTS OF NEGOTIATIONS.

(B) ONE WAY OF INJECTING ELEMENT OF BALANCE IN SUCH
TARIFF HARMONIZATION PROPOSALS WOULD BE TO ALSO REQUIRE
LARGER TARIFF CUTS ON RATES THAT ARE PREFERENTIAL. EXTENT
OF LARGER CUTS WOULD DEPEND UPON RATIO OF PREFERENTIAL
TRADE TO TOTAL TRADE IN TARIFF ITEM CONCERNED. PREFER-
ENCES FOR LDCS UNDER GSP COULD BE EXCLUDED FROM SUCH
HARMONIZATION FORMULA.

2. U. S. CONCEDED THAT, IN SOME CASES, HIGH TARIFFS CAN
BE MORE TRADE- DISTORTING THAN LOW TARIFFS. HOWEVER,
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PREFERENTIAL TARIFFS CAN ALSO BE MORE TRADE- DISTORTING
THAN NON- PREFERENTIAL TARIFFS. THEREFORE, IF LARGER CUTS
PROPOSED FOR HIGH TARIFFS, SAME REASONING APPLIES TO
LARGER CUTS FOR PREFERENTIAL TARIFFS.

3. WHEN U. S. PROPOSED IN TARIFF STUDY WORKING PARTY THAT
SAME WEIGHT BE GIVEN TO PREFERENTIAL TARIFFS AS TO HIGH

TARIFFS IN ANALYSES OF HARMONIZATION FORMULAE, EC RESERVED POSITION ON INJECTING THIS NEW ELEMENT INTO TARIFF WORK. SWITZERLAND, SWEDEN, AUSTRIA, AND NORWAY DID NOT FAVOR U. S. PROPOSAL BECAUSE THEY BELIEVED IT WOULD HIT EFTA COUNTRIES HARDER THAN EC IF THEIR TRADE WITH EC UNDER ASSOCIATION ARRANGEMENTS WERE CLASSIFIED AS PREFERENTIAL. FYI UNLESS SUCH TRADE WERE TREATED AS PREFERENTIAL U. S. PROPOSAL WOULD HAVE LITTLE PRACTICAL EFFECT. END FYI

4. IN PRESENT TARIFF STUDY INTRA- EC TRADE, LIKE INTRA- U. S. TRADE, IS EXCLUDED BUT INTRA- EFTA TRADE IS CLASSIFIED AS PREFERENTIAL. UNRESOLVED ISSUE IS HOW TO TREAT TRADE UNDER ASSOCIATION ARRANGEMENTS. THIS ISSUE AFFECTS ALL FUTURE TARIFF STUDY ANALYSES, NOT JUST SUBJECT U. S. PROPOSAL. FURTHER TARIFF STUDY WORK HAS BEEN HALTED PENDING RESOLUTION THIS ISSUE, WHICH, HOPEFULLY, CAN BE RESOLVED BEFORE CTIP MEETING, MAY 10-11.

5. ACTION U. S. MISSION GENEVA: MISSION REQUESTED ASSURE SWISS, SWEDISH, AND AUSTRIAN REPS (REF A) THAT U. S. OBJECTIVE IS INTRODUCE ELEMENT OF RECIPROCITY INTO TARIFF HARMONIZATION FORMULAE AND THAT THERE NO INTENTION THAT THIS ELEMENT WEIGH MORE HEAVILY ON EFTA COUNTRIES THAN ON EC. WE HAVE NO OBJECTION IN PRINCIPLE TO MODIFICATION U. S. PROPOSAL TO MEET THIS POINT. ONE POSSIBILITY IS TO BASE LARGER CUTS ON PREFERENTIAL RATES ON MARGINS OF PREFERENCE, I. E., DIFFERENCE BETWEEN MFN RATE AND LOWEST PREFERENTIAL RATE ON ITEM CONCERNED, INSTEAD OF ON RATIO OF PREFERENTIAL TRADE TO TOTAL TRADE. THE GREATER THE MARGIN OF PREFERENCE, THE LARGER THE CUT. THE EC SLIDING SCALE FORMULA FOR DETERMINING LARGER CUTS ON HIGH TARIFF RATES COULD ALSO BE USED TO DETERMINE LARGER CUTS ON PREFERENTIAL RATES. WE ALSO PREPARED EXAMINE ANY PROPOSAL BY OTHERS.

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6. MISSION SHOULD EMPHASIZE THAT IN ASKING SECRETARIAT MAKE HARMONIZATION ANALYSES NEITHER U. S. NOR OTHER COUNTRIES ACCEPT TARIFF HARMONIZATION AS TECHNIQUE FOR NEGOTIATIONS, MUCH LESS ACCEPT A PARTICULAR HARMONIZATION TECHNIQUE. CONSEQUENTLY, WE HOPE THAT EFTA COUNTRIES COULD AGREE TO (A) HAVE SECRETARIAT MAKE ANALYSES BASED ON EC AND ORIGINAL OR ALTERNATIVE U. S. PROPOSALS (SEE PARA. 8) AND (B) HAVE EFTA COUNTRY TRADE WITH EC UNDER ASSOCIATION ARRANGEMENTS CLASSIFIED AS PREFERENTIAL SO THAT DELAY IN OTHER TARIFF STUDY WORK BY SECRETARIAT CAN BE AVOIDED.

7. MISSION SHOULD ALSO TRY OBTAIN SUPPORT OF CANADIANS,

JAPANESE, AND ISRAELIS FOR COMPROMISE APPROACH SUGGESTED
PARA. 8. WOULD ALSO APPRECIATE LEARNING WHETHER CANADIANS
AND JAPANESE WANT PROPOSALS, REPORTED PARA. 8, REF C,
CONSIDERED AT TARIFF STUDY WORKING PARTY, IF MEETING HELD
MAY 14-15.

8. ACTION U. S. MISSION BRUSSELS: MISSION REQUESTED
DISCUSS THIS MATTER WITH COMMISSION OFFICIALS (LUYTEN,
DUGIMONT) AND TRY OBTAIN THEIR AGREEMENT BEFORE MAY 10-11
CTIP MEETING THAT IN TARIFF STUDY EC TRADE WITH EFTA
COUNTRIES UNDER ASSOCIATION ARRANGEMENTS BE TREATED AS
PREFERENTIAL, I. E., IN SAME WAY AS INTRA- EFTA TRADE.
AGREEMENT SHOULD ALSO BE SOUGHT TO HAVE SECRETARIAT
ANALYZE BOTH EC AND U. S. TARIFF HARMONIZATION PROPOSALS.
FOLLOWING ANALYSES MIGHT BE MADE: (A) INCLUSION OF EC
AND U. S. PROPOSALS IN ONE CALCULATION; (B) INCLUSION OF
EC PROPOSAL IN ONE CALCULATION AND U. S. PROPOSAL IN
SEPARATE CALCULATION; OR (C) ALL OF THE ABOVE, I. E.,
THREE CALCULATIONS. ROGERS

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